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City and Town

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FY05 Budget Outlook

by Cam Huff, Senior Research Associate, Massachusetts Taxpayers Foundation

By almost every measure of financial health, municipal finances have deteriorated sharply over the last two years, in large part as a result of cuts in state aid that totaled 7 percent, or almost \$400 million, from fiscal 2002 to 2004. At the same time, free cash has fallen, overrides of Proposition 2½ have jumped to the highest level in over a decade, and property tax burdens for the state as a whole have risen significantly after remaining stable for most of the 1990s. Even with the rise in taxes, local leaders have had to cut programs and services, lay off teachers and other key personnel, and defer funding of pension and other important obligations.

Unhappily, the state's finances remain precarious, offering little hope of significant relief for local budgets even though the economic outlook has improved considerably from a year ago. The continuing structural deficit in the state budget will necessitate further tough choices — and undoubtedly cuts in local aid — in 2005.

While recent forecasts of modest revenue growth in 2005 are welcome news, the predicted gains — in the neighborhood of 4 percent, or \$600 million — are only enough to cut the expected deficit to the \$1 billion range.¹ Although it is possible that revenue performance could exceed those forecasts, under the state's recently revised tax cap those additional revenues could remain largely unavailable for use in the budget. The 2003 budget

amended the cap to allow annual tax growth of no more than inflation plus 2 percent.

The state will also have to finance a series of major increases in unavoidable costs in 2005.

Health care costs comprise the largest of these obligations, with expected increases of \$600–700 million (offset 50 percent by federal reimbursements). Although 2004 Medicaid cost growth has been blunted by a series of eligibility reductions and cost containment measures, the underlying rate of increase for 2005 remains in the range of 10–12 percent. While Massachusetts still has roughly \$400 million remaining from last year's \$550 million package of federal fiscal relief, those funds are almost certain to be dedicated to pressing health care needs — such as deficits in the state's "free care" program that have only been made worse by previous Medicaid cuts — rather than to providing relief in other parts of the state budget.

The state will also have to increase appropriations for state employee and teachers pensions in 2005 by at least \$500 million — and perhaps as much as \$700 million — in order to stay on schedule to eliminate the huge unfunded liability over time. This large increase is due to a combination of factors, including losses in the value of pension assets, early retirement incentive programs that added more than \$1 billion to the unfunded liability, and re-

ductions in annual pension funding, including the decision to transfer the Convention Center and Boston Common Parking Garage to the pension system in lieu of \$145 million of required 2004 pension appropriations.

The state will also have to provide as much as \$200 million more for debt service on borrowing for the Commonwealth's capital projects, as well as tens, if not hundreds, of millions more for increases in other programs that are driven by caseload growth or subject to consent decrees.

Despite the roughly \$1 billion of tax increases in 2002 and steep spending cuts across state government that now approach \$3 billion, the Commonwealth must still deal with a billion dollar hole in the state budget in 2005. With little appetite on Beacon Hill for tax increases and the opportunities for significant state fee increases largely exhausted, lawmakers will once again

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From the Acting Deputy Commissioner
The Appellate Tax Board (ATB) is a state administrative body that hears and decides taxpayer appeals from local

assessors' decisions on abating property taxes. The ATB also hears cases involving disputes between taxpayers and the Department of Revenue (DOR) on state tax matters and between municipalities and DOR on centrally valued properties. However, the most frequent type of appeal filed with the ATB is real estate tax appeals.

The taxpayer has three months from the date of the assessors' decision on an abatement application to appeal to the ATB. If the abatement application was deemed denied because the assessors did not act on it within three months, then the taxpayer has three months from the date the abatement application was deemed denied to file an appeal.

Filing fees range from \$10 to \$5,000 based on the assessed value of the property. Appeals may be filed in person or by mail. It takes between four months to one year before a case is heard.

Taxpayers may act for themselves or be represented by an attorney. Residential taxpayers may use the "informal" procedure when presenting a case, which eliminates the formal rules that typically govern ATB cases. Taxpayers bear the burden of proving that their property is overvalued, since the assessment is presumed by law to be valid.

For more information, visit the ATB website at www.state.ma.us/atb.

Gerard D. Perry
Acting Deputy Commissioner

Legal

in Our Opinion

New Ruling on Faculty Housing

by James Crowley

The Appeals Court recently ruled on the tax status of faculty housing. The case is *Bay Path College v. Assessors of Longmeadow*, 57 Mass. App. 807 (2003).

Bay Path College in Longmeadow has a campus that consists of two disjointed parcels. The "Main Campus" lies along Longmeadow Street. The parcel called the "South Campus" was acquired by the college in 1997. It is about one-third of a mile from the Main Campus and contains 12 acres of land that are used as athletic fields. The South Campus also has two buildings: a clubhouse and another house where the college athletic director resides. The college claimed the entire South Campus was exempt under M.G.L. Ch. 59 Sec. 5 Cl. 3. The Longmeadow assessors disagreed and taxed the athletic director's house. The college then appealed the assessment to the Appellate Tax Board (ATB). College officials claimed the house was used as faculty housing and therefore exempt. The assessors conceded that Bay Path College was a charitable educational institution but argued the college in this instance did not meet the statutory test for exemption. The assessors relied on M.G.L. Ch. 59 Sec. 5 Cl. 3(e), which extends exemption to faculty residences only if "part of or contiguous to real estate which is the principal location of such institution." It was the opinion of the assessors that the athletic director's house, while part of the South Campus, should not be considered part of the principal location of the college. The ATB ruled in favor of the college and the assessors appealed.

The Appeals Court wrote that the issue of exemption hinged on the meaning of the statutory phrase "principal loca-

tion" as found in Clause 3. The court noted that the Legislature never defined this phrase presumably because of practical difficulties, particularly where educational institutions covered large urban areas. The Appeals Court cited two prior decisions that had interpreted this phrase. In *Trustees of Boston University v. Assessors of Brookline*, 11 Mass. App. 325 (1981) the Appeals Court had held that the university president's house on Carlton Street in Brookline was taxable. The house was located one-third of a mile away from the university's principal location on Commonwealth Avenue and was separated from it by streets, railroad tracks, other privately owned parcels, and the Massachusetts Turnpike. Relying on these factors, the Appeals Court held that the residence of the Boston University President on Carlton Street was not contiguous to or adjoining the principal location of Boston University. In a second decision, the Supreme Judicial Court had held that faculty housing located across the street from a private school was part of the principal location of the school. The Supreme Judicial Court had held in *Trustees of Milton Academy v. Assessors of Milton*, 391 Mass. 1017 (1984) that the principal location of a school can be traversed by a road and need not consist of one integral parcel.

In the case at hand, the Appeals Court applied a new rule of law to determine the principal location of a school. According to the court, a school's principal location "may consist of parcels that do not necessarily abut but are clustered in sufficient proximity so that, from a bird's eye view, they present a coherent whole." The Appeals Court distinguished the instant case from the Boston University decision. Although Bay Path College's South Campus was also one-third of a mile from the Main

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Focus

on Municipal Finance

A Study of Charitable and Educational Property Tax Exemptions

by Regina McArdle and Donna Demirai

The Massachusetts Legislature in Chapter 46, § 112 of the Acts of 2003 directed the Commissioner of the Department of Revenue (DOR) to investigate and study the economic impact on each city and town of the tax exemption granted to non-profit, charitable and educational institutions including, but not limited to, private secondary schools, under clause 3 of section 5 of chapter 59 of the General Laws. It was further requested that the review include an assessment of the amelioration afforded by any payments-in-lieu-of-taxes (PILOTs) made by charitable organiza-

tions and an assessment of the property taxes that would be owed to the city or town if the tax exempt status of the charitable organization were terminated.

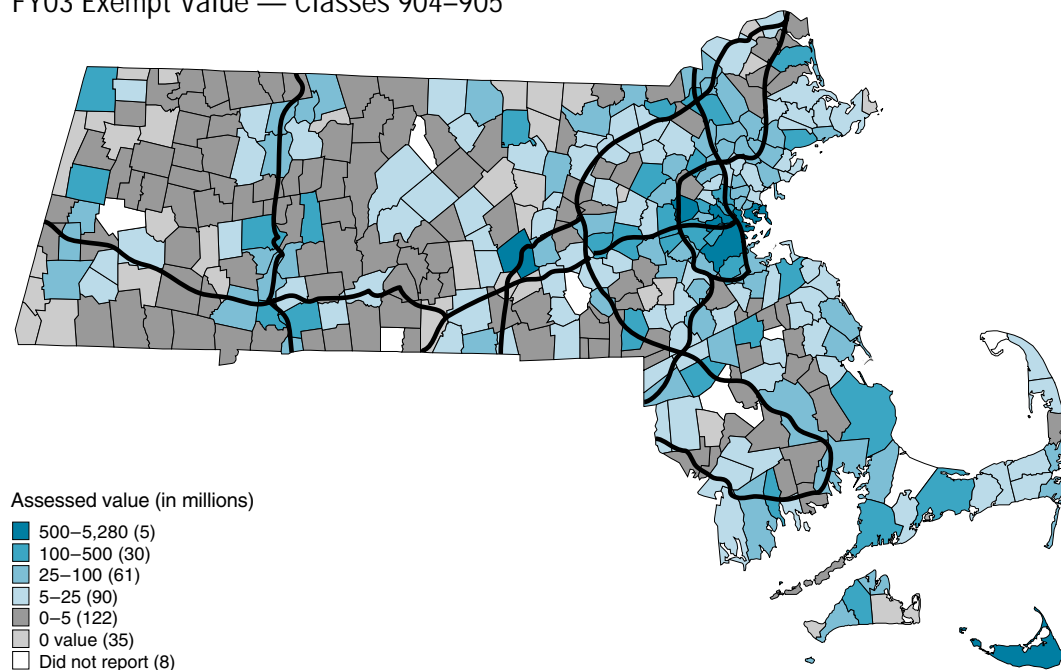
The Bureau of Local Assessment of the Division of Local Services has surveyed the Board of Assessors in the Commonwealth's 351 municipalities regarding the Fiscal Year 2003 assessed value of exempt property owned by charitable and educational organizations and any PILOTs received for these properties. Specifically excluded from this information request was property with government and religious exemptions. There was an overwhelming response to our request for information. Three hundred forty-three, or 98 percent, of the communities provided us with data. The results of this survey have been compiled and analyzed. The following pages report on these findings.

Traditionally, property owned by governmental bodies, charitable, and religious organizations have been exempt from property taxes. Every state in the United States has provisions for exempting charitable organizations from property taxes. The nature and extent of these exemptions, however, varies.

In Massachusetts, M.G.L. Ch. 59 Sec. 5 Cl. 3 provides a property tax exemption for a charitable corporation or a charitable trust. Charitable is defined as "a literary, benevolent, charitable or scientific institution or temperance society." However, not all property owned by such an organization is eligible for an exemption. To receive the exemption, the parcel must be owned and occupied for charitable purposes and upon dissolution, its income and profits or assets may not be distributed to a stockholder, trustee or member. In addition, the charity must annually file a

report with the Board of Assessors. The parcel will be subject to taxation if it belongs to an educational institution and is occupied or used wholly or principally as a residence for officers of such institutions and is not part of, or contiguous to, the institution's principal location. Also, if it is an athletic property used for other than educational, charitable or scientific purposes in direct competition with taxed proper-

FY03 Exempt Value — Classes 904–905



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Figure 1

FY2003 Property Exemptions: Class 904 (Educational) and Class 905 (Charitable)

Community	904 + 905 value	904 + 905 pct. of total exempt	904 + 905 pilot	904 + 905 projected tax payments	Community	904 + 905 value	904 + 905 pct. of total exempt	904 + 905 pilot	904 + 905 projected tax payments	Community	904 + 905 value	904 + 905 pct. of total exempt	904 + 905 pilot	904 + 905 projected tax payments
Abington	566,600	0.78	0	9,264	Chesterfield	1,134,300	13.88	0	22,822	Hancock	0	0	0	0
Acton	4,963,200	2.75	0	67,251	Chicopee	24,558,400	5.62	255,059	798,394	Hanover	15,493,100	15.82	0	224,495
Acushnet	2,561,400	6.60	0	49,717	Chilmark	61,076,100	50.41	0	101,386	Hanson	1,588,300	2.85	0	22,189
Adams	792,200	1.81	0	15,939	Clarksburg	0	0	0	0	Hardwick	12,051,400	49.88	0	179,807
Agawam	4,479,300	1.74	0	104,860	Clinton	9,080,300	9.55	0	237,087	Harvard	14,769,400	3.12	17,328	169,110
Alford	0	0	0	0	Cohasset	18,982,200	20.33	0	227,597	Harwich	19,825,100	9.54	21,491	158,997
Amesbury	5,868,900	3.60	0	100,945	Colrain	74,700	1.17	0	1,313	Hatfield	840,300	3.40	0	10,949
Amherst	163,211,500	49.09	0	2,792,549	Concord	163,633,200	32.23	23,680	1,577,424	Haverhill	18,471,800	4.80	0	405,087
Andover	182,093,900	34.43	103,845	3,039,147	Conway	5,961,000	57.37	0	104,914	Hawley	261,800	5.87	0	5,045
Aquinnah	0	0	0	0	Cummington	3,256,300	21.42	2,000	45,100	Heath	228,700	4.17	0	4,714
Arlington	15,263,500	5.51	0	207,736	Dalton	3,143,200	5.68	0	55,226	Hingham	58,022,200	18.42	0	665,515
Ashburnham	25,692,500	47.81	0	396,178	Danvers	57,658,800	12.22	0	972,127	Hinsdale	183,500	0.65	0	2,764
Ashby	0	0	0	0	Dartmouth	40,951,800	11.52	0	441,051	Holbrook	1,224,100	2.83	0	32,182
Ashfield	788,500	6.41	0	12,490	Dedham	58,330,000	27.12	20,700	1,849,644	Holden	4,356,400	3.07	0	70,704
Ashland	12,244,700	15.37	0	163,099	Deerfield	89,395,500	71.46	88,370	1,072,746	Holland	659,300	7.19	0	12,619
Athol	2,396,100	6.03	0	39,224	Dennis	11,202,700	10.63	0	63,967	Holliston	3,017,100	1.89	0	48,847
Attleboro	42,436,100	16.05	0	926,380	Dighton	0	0	0	0	Holyoke	35,060,200	13.21	0	1,357,180
Auburn	0	0	0	0	Douglas	882,700	2.12	0	13,232	Hopedale	4,604,700	13.84	0	87,305
Avon	1,539,300	5.94	10,000	36,127	Dover	93,023,700	42.34	0	853,958	Hopkinton	16,855,400	13.47	10,000	232,942
Ayer	8,556,200	9.80	0	181,563	Dracut	1,463,000	1.70	0	17,176	Hubbardston	1,299,100	4.39	0	18,707
Barnstable	119,328,700	12.76	0	1,121,690	Dudley	40,094,000	71.19	0	422,992	Hudson	3,492,300	3.20	0	76,062
Barre	20,730,300	50.10	0	340,392	Dunstable	890,900	6.36	0	13,577	Hull	3,228,300	1.78	0	35,124
Becket	6,694,100	42.00	3,000	81,869	Duxbury	94,113,800	32.32	1,500	1,135,012	Huntington	0	0	0	0
Bedford	65,670,500	15.72	1,073,000	1,687,075	E. Bridgewater	6,251,300	9.12	0	96,770	Ipswich	5,233,500	3.28	89,639	59,871
Belchertown	1,769,700	1.88	0	30,722	E. Brookfield	750,000	5.37	0	10,425	Kingston	6,246,400	6.38	0	89,324
Bellingham	2,020,700	2.65	0	30,048	E. Longmeadow	1,629,500	1.65	0	32,460	Lakeville	4,504,900	4.22	0	54,239
Belmont	78,909,000	15.46	0	850,639	Eastham	4,197,800	6.56	0	39,711	Lancaster	43,201,500	23.04	2,500	649,751
Berkley	797,100	3.25	0	9,422	Easthampton	30,892,100	30.78	300	523,312	Lanesborough	1,850,300	9.65	0	34,527
Berlin	616,500	2.33	0	8,711	Easton	62,502,600	38.70	20,000	811,909	Lawrence	54,765,700	21.35	0	1,479,769
Bernardston	1,990,200	19.16	0	36,620	Edgartown	0	0	0	0	Lee	3,259,800	4.19	3,328	51,635
Beverly	139,436,580	35.90	125,317	2,940,717	Egremont	0	0	0	0	Leicester	8,868,800	16.40	0	124,163
BillERICA	9,872,900	4.77	23,355	248,402	Erving	0	0	0	0	Lenox	62,189,310	50.83	183,721	736,321
Blackstone	3,266,600	7.29	0	40,898	Essex	13,158,600	39.87	0	159,219	Leominster	8,053,700	3.85	0	104,698
Blandford	57,200	0.88	0	1,003	Everett	59,145,300	15.00	92,948	1,547,241	Leverett	852,400	8.48	0	15,761
Bolton	2,720,800	6.93	0	34,609	Fairhaven	9,643,600	8.52	21,925	170,692	Lexington	859,000	0.19	270,659	18,194
Boston	4,816,894,343	26.21	10,383,022	159,728,216	Fall River	5,057,200	0.67	20,563	125,216	Leyden	444,000	9.49	0	9,542
Bourne	33,205,700	3.78	0	267,638	Falmouth	156,306,200	30.02	500	1,244,197	Lincoln	84,264,900	21.67	0	787,877
Boxborough	241,300	0.89	0	3,084	Fitchburg	178,642,900	35.62	0	4,094,495	Littleton	11,950,800	11.94	0	232,563
Boxford	2,377,700	9.33	0	27,558	Florida	455,400	11.23	0	6,585	Longmeadow	38,081,500	38.31	4,256	686,609
Boylston	8,295,300	12.04	0	114,724	Foxborough	11,479,500	2.32	0	157,728	Lowell	133,630,100	12.75	10,512	3,944,761
Braintree	54,011,200	16.27	845	1,001,368	Framingham	130,788,500	18.45	0	3,873,955	Ludlow	1,604,500	2.15	0	28,753
Brewster	7,219,400	3.64	0	56,239	Franklin	209,220,000	54.62	0	2,316,065	Lunenburg	0	0	0	0
Bridgewater	57,458,900	2.03	422	63,180	Freetown	11,673,300	22.78	0	267,902	Lynn	54,320,565	11.93	0	1,412,878
Brimfield	2,341,500	10.89	5,000	39,806	Gardner	18,177,600	10.00	0	321,925	Lynnfield	554,200	0.57	0	7,005
Brockton	250,572,770	24.14	102,000	6,692,799	Georgetown	2,767,200	5.78	0	34,867	Malden	32,803,300	10.71	0	927,021
Brookfield	2,041,900	9.15	0	42,329	Gill	40,871,250	81.07	17,000	640,452	Manchester	31,754,800	31.96	0	266,105
Brookline	239,589,900	22.58	3,091	4,432,413	Gloucester	18,499,500	5.19	0	261,028	Mansfield	7,406,100	6.69	0	116,128
Buckland	701,100	4.58	0	13,356	Goshen	493,900	7.76	0	8,243	Marblehead	22,573,900	9.93	0	190,072
Burlington	151,152,700	39.11	0	3,682,080	Gosnold	1,753,600	18.50	0	4,156	Marion	46,794,300	44.04	0	471,219
Cambridge	5,277,580,947	61.74	2,841,591	123,284,291	Grafton	17,369,700	11.85	0	260,546	Marlborough	33,500,100	13.51	0	730,972
Canton	4,601,300	2.09	163,464	105,416	Granby	186,700	0.78	0	2,758	Marshfield	31,096,400	16.69	25,940	350,456
Carlisle	5,193,800	10.67	0	78,167	Granville	1,250,700	4.07	0	20,812	Mashpee	15,594,500	5.72	0	148,304
Carver	1,744,500	3.23	0	36,408	Grt. Barrington	48,489,500	49.87	29,241	757,406	Mattapoisett	4,533,600	6.88	0	54,857
Charlemont	1,072,400	8.50	0	21,545	Greenfield	25,531,000	18.50	0	541,513	Maynard	0	0	0	0
Charlton	21,799,100	23.79	0	281,426	Groton	88,334,400	48.04	119,521	1,256,999	Medfield	0	0	0	0
Chatham	45,610,300	22.65	41,585	290,994	Groveland	0	0	0	0	Medford	116,156,100	25.08	65,550	3,168,738
Chelmsford	7,438,700	4.94	0	104,514	Hadley	2,001,000	2.57	0	25,893	Medway	2,902,700	4.20	0	39,186
Chelsea	35,373,100	5.13	92,945	804,031	Halifax	1,745,600	5.90	0	24,002	Melrose	70,777,300	28.69	0	1,363,879
Cheshire	0	0	0	0	Hamilton	14,047,200	10.96	0	185,985	Mendon	1,922,400	8.58	0	22,127
Chester	114,600	2.36	1,930	2,182	Hampden	2,335	0.01	0	40	Merrimac	0	0	0	0

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Methuen	69,640,600	29.99	146,586	1,434,596	Princeton	0	0	0	0	Tyngsborough	33,231,000	33.04	0	548,644
Middleborough	57,298,100	44.05	0	975,787	Provincetown*					Tyringham	8,221,300	62.49	1,500	74,649
Middlefield	0	0	0	0	Quincy	83,634,400	5.67	0	2,374,381	Upton*				
Middleton	31,955,500	27.57	31,400	353,428	Randolph	22,415,120	12.25	0	497,840	Uxbridge	7,708,500	16.86	0	125,340
Milford	49,838,900	33.00	112,117	1,306,776	Raynham	2,084,500	4.39	0	33,998	Wakefield	9,106,100	3.13	0	212,718
Millbury	0	0	0	0	Reading	18,472,900	11.73	0	212,254	Wales*				
Millis	0	0	0	0	Rehoboth	6,640,500	18.72	1,700	84,069	Walpole	16,155,600	6.94	0	273,030
Millville	342,200	2.58	0	5,219	Revere	15,538,500	6.68	0	424,823	Waltham	506,391,500	31.28	12,094	12,614,212
Milton	153,276,800	48.90	3,683	3,111,519	Richmond	4,167,900	26.85	2,500	46,264	Ware	2,462,900	3.70	0	42,756
Monroe	0	0	0	0	Rochester	2,754,200	5.49	0	37,016	Wareham	36,396,900	19.77	0	354,506
Monson	4,383,420	4.57	0	78,858	Rockland	2,277,500	1.87	0	29,699	Warren	172,600	0.65	0	2,926
Montague	7,608,000	9.38	0	183,885	Rockport	0	0	0	0	Warwick	139,500	1.72	0	2,853
Monterey	14,225,900	43.00	10,000	112,385	Rowe	274,200	4.74	0	1,514	Washington*				
Montgomery	0	0	0	0	Rowley	4,240,000	12.02	0	49,947	Watertown	60,273,700	21.79	59,379	1,380,870
Mt. Washington	0	0	0	0	Royalston	989,400	10.73	0	13,189	Wayland	6,811,888	3.11	0	85,285
Nahant	7,035,700	12.40	0	64,166	Russell	2,615,300	28.05	0	67,004	Webster	11,463,530	13.83	0	214,024
Nantucket	865,414,500	46.12	0	5,616,540	Rutland	7,682,600	14.26	10,000	106,097	Wellesley	110,452,000	44.91	0	896,870
Natick	80,801,200	18.46	0	995,471	Salem	17,820,200	5.80	0	465,820	Wellfleet	13,538,800	19.91	0	88,544
Needham	71,746,400	20.43	0	1,317,264	Salisbury	2,803,600	3.85	0	29,942	Wendell	2,259,900	13.46	0	43,955
New Ashford	0	0	0	0	Sandisfield	1,908,000	17.9	0	19,423	Wenham	13,553,900	35.79	0	149,500
New Bedford	109,161,400	12.60	0	3,482,249	Sandwich*					W. Boylston	0	0	0	0
New Braintree	644,500	3.76	0	11,201	Saugus	15,899,600	14.65	0	334,210	W. Bridgewater	2,659,900	3.37	0	46,761
New Marlborough	3,049,900	32.52	0	33,610	Savoy	0	0	0	0	W. Brookfield	4,365,300	17.16	36,113	58,495
New Salem	1,061,400	11.68	0	13,268	Scituate	6,632,600	4.16	0	62,214	W. Newbury	1,155,800	2.88	0	14,124
Newbury	40,596,000	36.46	3,000	414,079	Seekonk	13,766,600	18.84	0	302,177	W. Springfield	134,400,400	96.24	0	4,423,117
Newburyport	4,253,100	1.89	0	58,055	Sharon	41,232,200	28.01	0	802,379	W. Stockbridge	810,700	10.28	0	10,336
Newton	398,210,700	27.68	100,000	8,330,568	Sheffield	0	0	0	0	W. Tisbury	185,095,300	52.03	0	914,371
Norfolk	15,192,100	21.49	0	197,649	Shelburne	5,428,700	32.60	900	67,642	Westborough	12,339,900	5.74	0	163,874
N. Adams	13,163,500	10.98	0	377,398	Sherborn	4,593,400	7.11	0	66,650	Westfield	30,551,200	11.57	0	945,560
N. Andover	51,195,700	32.97	0	816,571	Shirley	92,300	0.10	0	1,287	Westford	17,118,700	8.23	37,350	248,392
N. Attleborough	7,500,900	6.48	0	91,736	Shrewsbury	40,968,400	11.41	0	434,265	Westhampton	17,069,000	93.28	0	312,363
N. Brookfield	3,810,800	13.09	0	52,818	Shutesbury	1,194,200	13.42	7,885	24,780	Westminster	631,500	1.52	10,972	10,571
N. Reading	1,945,300	1.50	0	23,519	Somerset	1,494,400	1.43	0	41,499	Weston	119,227,200	27.03	0	1,210,156
Northampton	336,345,387	46.24	0	5,492,520	Somerville	153,170,300	25.57	0	3,219,640	Westport	8,905,300	5.93	0	73,469
Northborough	4,581,100	6.70	0	72,519	S. Hadley	82,886,900	63.90	0	1,442,232	Westwood	18,858,300	12.75	0	393,761
Northbridge	9,618,300	21.35	0	124,172	Southampton	3,180,200	11.38	1,000	51,646	Weymouth	123,544,100	28.94	106,361	2,512,887
Northfield	31,116,000	59.14	17,442	428,467	Southborough	102,562,700	71.04	78,168	1,255,367	Whately	451,000	5.89	0	8,204
Norton	118,986,100	42.60	3,892	1,373,100	Southbridge	20,808,400	17.48	0	337,720	Whitman*				
Norwell	10,719,000	8.00	0	136,346	Southwick	210,200	0.40	0	3,466	Wilbraham	20,472,200	19.23	0	374,027
Norwood	48,659,200	23.94	13,087	706,532	Spencer	0	0	0	0	Williamsburg	2,762,800	18.31	0	47,161
Oak Bluffs	36,575,500	24.12	0	255,297	Springfield	499,255,600	47.34	134,856	18,018,135	Williamstown	296,800,000	85.96	237,540	3,899,952
Oakham	985,300	7.81	0	11,824	Sterling	0	0	0	0	Wilmington	6,132,600	4.33	0	199,739
Orange	1,289,600	3.32	0	24,477	Stockbridge	55,970,000	68.80	49,000	481,342	Winchendon	13,344,700	15.74	0	181,488
Orleans	63,005,200	23.62	0	322,587	Stoneham	10,572,400	4.81	0	176,242	Winchester	22,025,400	9.43	0	249,768
Otis	0	0	0	0	Stoughton	12,922,600	6.56	851	283,651	Windsor	2,034,500	27.24	0	26,652
Oxford	4,302,600	7.18	0	62,216	Stow	5,538,400	8.63	0	80,196	Winthrop	3,288,000	2.93	0	33,702
Palmer	6,972,500	7.67	0	128,782	Sturbridge	0	0	0	0	Woburn	36,021,900	12.68	0	796,084
Paxton	11,182,700	35.51	0	199,723	Sudbury	23,882,400	22.18	27,000	533,055	Worcester	698,002,300	33.07	24,904	23,243,477
Peabody	58,788,800	11.97	83,769	1,108,757	Sunderland	14,500	0.09	0	201	Worthington	2,889,800	41.68	6,700	50,167
Pelham	546,200	5.16	0	11,093	Sutton	925,200	1.92	0	10,973	Wrentham	2,446,600	2.17	0	33,200
Pembroke	10,913,400	7.50	0	132,270	Swampscott	19,913,900	14.02	8,075	486,895	Yarmouth	14,138,100	6.50	0	156,650
Pepperell	0	0	0	0	Swansea	24,232,200	23.34	0	93,275	All with 904 & 905 (N=308)	22,098,752,575	26.01	17,894,347	505,863,999
Peru	245,100	4.63	0	4,316	Taunton*					All reporting (N=343)	22,098,752,575	24.77	17,894,347	505,863,999
Petersham	12,427,700	39.91	0	214,378	Templeton	375,800	0.89	2,349	5,141	*Did not report data.				
Phillipston*					Tewksbury	2,811,100	1.56	0	63,165					
Pittsfield	130,934,760	28.74	119,031	3,901,856	Tisbury	33,922,470	33.07	0	466,095					
Plainfield	1,877,300	34.26	500	26,282	Tolland	2,427,300	23.53	0	12,816					
Plainville	2,997,000	7.64	0	37,762	Topsfield	5,421,500	10.76	0	69,070					
Plymouth	102,136,400	17.35	0	1,256,278	Townsend	0	0	0	0					
Plympton	107,500	1.60	0	1,629	Truro	12,931,200	19.13	0	74,354					

Table 1

Property Tax Exemptions

continued from page three

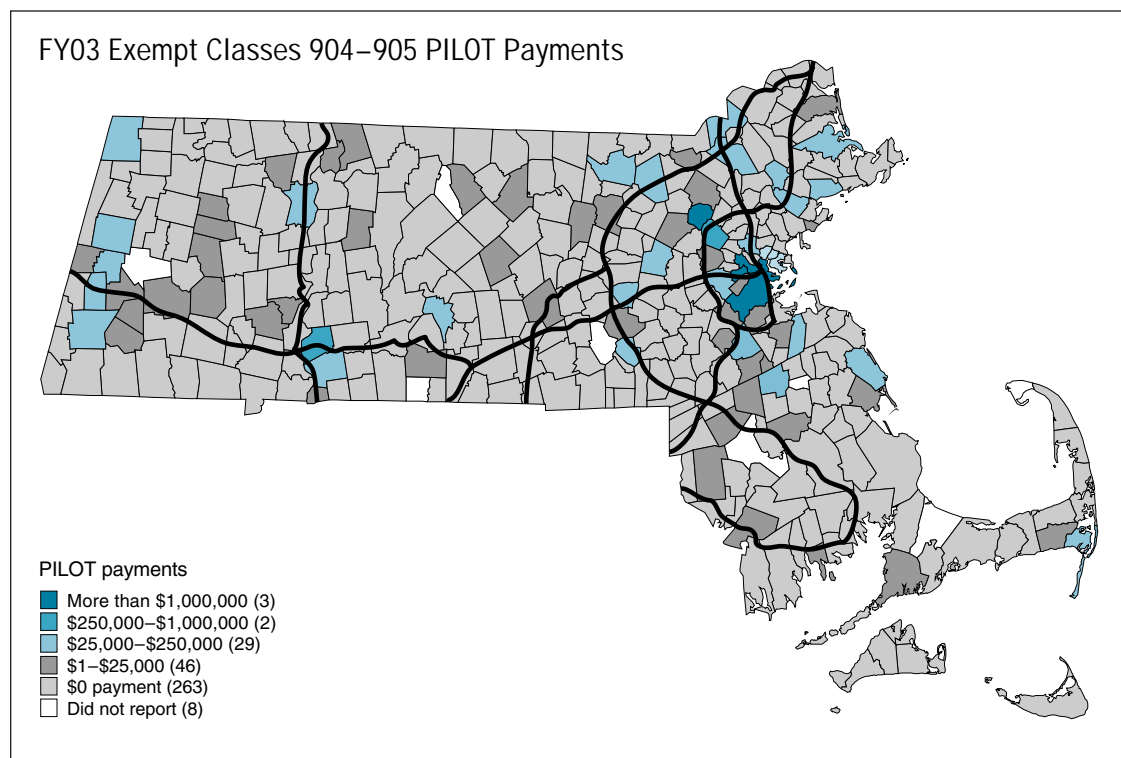


Figure 2

ties, it may be taxed fully or on a pro-rated basis.

Municipalities are required to establish the fair market value of all taxable and exempt property and to classify it according to its use. Local assessors generally attempt to determine the current value of exempt property but some of these properties are unique and would require extensive, detailed appraisal analysis. Most, therefore, do not invest as much time, money or effort in the valuation of such property unless they anticipate its conversion from exempt to taxable status. Verification of the application of full and fair cash valuation standards to exempt property is part of the Bureau of Local Assessment's triennial certification review. The focus of these reviews, however, is also primarily on a jurisdiction's taxable properties.

The Survey

Unlike taxable property data, communities do not annually report detailed information on exempt property to the

Department of Revenue. Only a municipality's total exempt property value figure is readily available to the Department. As a result, for this study the Bureau had to conduct a special survey of all cities and towns in August 2003. Information for Fiscal Year 2003 was requested for two tax exempt property class codes that are used throughout the Commonwealth. Property class code 904 is used for all exempt property held by private educational institutions, schools and colleges. Property class code 905 is used for all exempt property held by other charitable organizations, such as non-profit hospitals, conservation and preservation organizations and human services groups. For these properties, the following information by class was requested: number of parcels, total value, and the amount of any PILOTs. To maximize participation in the survey, intensive follow-up, in the form of phone calls and faxes, was done for all who did not initially respond. As a result, all but eight of the Commonwealth's 351 municipalities partici-

pated in the survey. Phillipston, Provincetown, Sandwich, Taunton, Upton, Wales, Washington and Whitman did not submit information in time to be included in this report. All data supplied by municipal assessors and used in this report is unaudited. The results, therefore, must be viewed in light of the valuation limitations described above and this unaudited reporting.

Survey Findings

In Fiscal Year 2003, in Massachusetts, local governments reported that the value of all exempt property, governmental, religious, educational and charitable, was more than \$87 billion. This was approximately 12 percent of total taxable and exempt property valued by municipalities that year.

Of the 343 respondents to our survey, 308, or 90 percent, reported that there are tax exempt educational and charitable properties in their jurisdiction. All regions of the Commonwealth are represented in this group. The municipalities without such properties tend to be smaller in terms of population, but are also found throughout the state. The reported value of all tax exempt educational and charitable properties was more than \$22 billion dollars, or approximately 3 percent of the total property value in the reporting communities. Class 904, schools and colleges, was valued at more than \$12.4 billion; the charitable organizations, class 905, at \$9.6 billion. However, fewer municipalities have class 904 than class 905

continued on page seven

Property Tax Exemptions

continued from page six

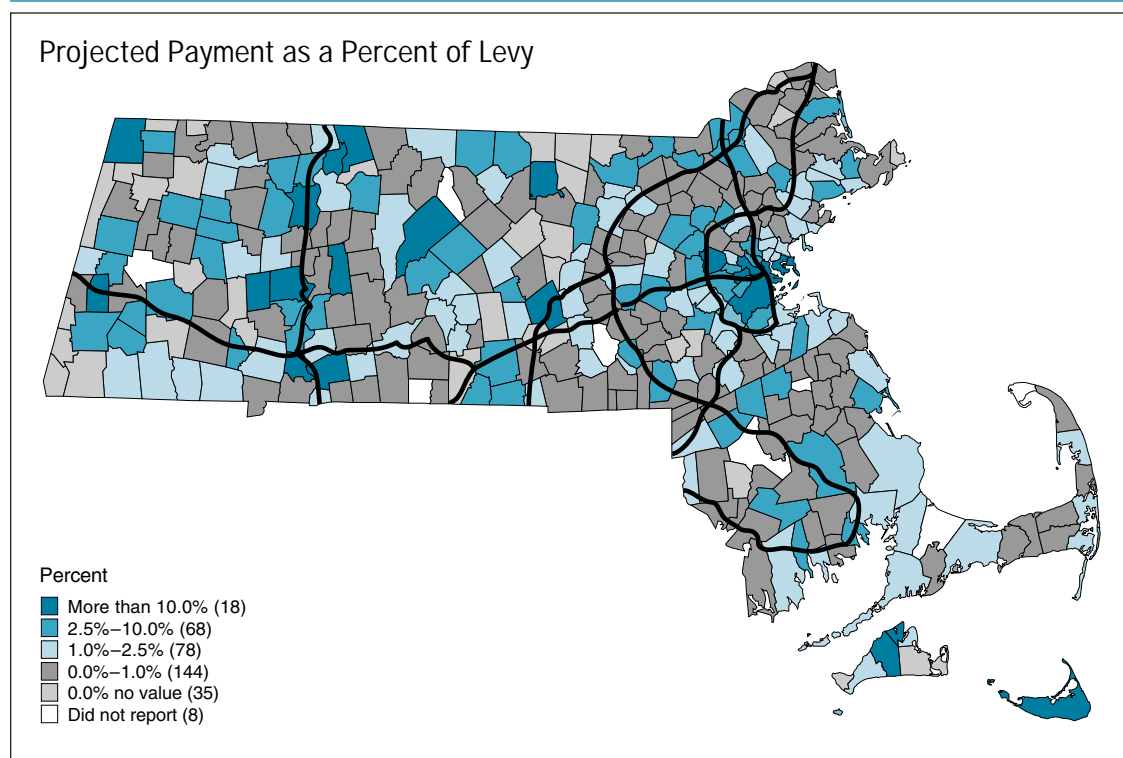


Figure 3

properties. Only 170 or 49.6 percent of responding communities have educational institutions, while 305 (89 percent) reported general charitable properties. While there is a slightly higher concentration in the east of communities with schools, municipalities with class 905 properties are evenly spread across the state.

Property Class 904, Schools and Colleges

Since we were requesting the data for this study retrospectively, we did not ask the local municipalities to differentiate tax exempt property of schools from that of colleges and universities. This would have, in many cases, required many assessors to compile the data manually, resulting in reporting delays and increased non-participation. To identify municipalities in which private, tax exempt colleges are located, we obtained a list of those accredited or seeking accreditation by the New England Association of Secondary Schools and Colleges. Thirty-four communities host 79 such institutions. The list is, however, not exhaustive. It in-

cludes neither non-accredited institutions, nor information on the location of satellite campuses. Overall, these 34 municipalities did report higher class 904 values and a higher proportion of such value to their total taxable property value. The communities identified are, however, diverse. For some, such as Williamstown, South Hadley and Cambridge, the impact of college/university owned property is evident. For others, it is less clear if the class 904 data reflects primarily college properties or whether those of private elementary and secondary schools are also significant. It is interesting to note, that in addition to having sizable tax-exempt property holdings, these institutions or their affiliates may also be among the top five taxpayers in their community. Bureau files indicate that this is the case in at least seven municipalities: Amherst (Amherst College), Brookline (Boston University), Cambridge (MIT and Harvard), Northampton (Smith College), Wellesley (Wellesley College), South Hadley (Mount Holyoke College), and Williamstown (Williams College).

Payment-in-Lieu-of-Taxes

Only 80 communities (26 percent) reported PILOTs for the educational and charitable exempt property classes. These payments totaled almost \$17.9 million. They reflect actual cash received, not the value of in-kind services or other informal payment mechanisms. The latter are difficult if not impossible to quantify, as they include such diverse payments as contributions of specific capital items, such as fire engines and am-

bulances, the use of facilities, the provision of scholarships, or technical assistance to municipal departments. Generally, organizations and municipalities enter into short-term or long term payment agreements that are made in good faith and are voluntary in nature. Several municipalities reported that they had approached groups and institutions to provide some type of monetary payment but were unable to negotiate any such agreement. One community reported that although such an agreement existed, no payment had been made for the year.

The range of payments was between \$300 for Easthampton, to \$10,383,022 for the City of Boston. The average payment was \$223,700. This is, however, misleading since three communities, Bedford, Boston and Cambridge, received most of the PILOT money, approximately \$14.2 million. The majority of the remaining communities, 54, received less than \$50,000 each. For exempt educational property, only 28 of

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DLS Update

Online Technology Forum

In keeping with several initiatives to improve communication between state and local information technology directors, the Division of Local Services has established an online forum topic for non-technical officials in smaller communities that do not have Information Technology (IT) staff. The topic, "IT Management in Smaller Towns," concentrates on the issues and ideas of local officials who rely on non-IT staff and volunteers to participate in e-government and run day-to-day computer operations.

This forum offers an opportunity for online general discussion of common problems and solutions. It is moderated to ensure appropriate content, so there is typically a delay of up to 24 hours in posting of messages. A simple registration process is necessary to participate (just follow the login links to create a new account). Any relevant input is welcome. The purpose is to offer one more channel of communication as state-local programs are being designed and developed.

The forum is available on the Division's website (www.mass.gov/dls) in the Quick Links box under "Local Finance Forum." The direct link is <https://forums.dor.state.ma.us/forums/index.jspa>.

State Auditor Given Certain Municipal Audit Authority

by State Auditor Joe DeNucci

Two provisions in the recently enacted Municipal Relief Act (Chapter 46 of the Acts of 2003) authorize the Office of the State Auditor (OSA), for the first time, to conduct specialized audits in cities, towns, counties, districts, and regional school districts.

Section 35 of Chapter 46, creates a two-year pilot program giving OSA uni-

lateral authority to investigate suspected fraud in any city, town, county, district, or regional school district. This authority was granted to OSA out of concern that reduced oversight resources for local government has increased the vulnerability of municipal funds to theft and misuse. This provision is a clear recognition of the previous work OSA has done in investigating fraud in state agencies under our authority in Chapter 647 of the Acts of 1989, the Internal Control Act.

Under this pilot program, OSA will be able to go into a local entity where there has been a suspected case of fraud or abuse, evaluate the entity's system of internal financial controls. OSA will promptly identify any theft or loss and determine the weaknesses which may have led to the abuse, and make recommendations for corrective action. At the end of the two-year period, the Legislature will evaluate the program and determine whether to make it a permanent part of state law.

Like everywhere else in government, OSA's resources are limited, which dictates that work be prioritized. Requests for audits under this new fraud provision do not include what would be characterized as normal, routine audits such as financial, programmatic or economy and efficiency audits, as well as management reviews, but specifically relate to investigating fraud and illegal acts.

An internal process has been developed to review and evaluate any referrals made to OSA. The office will first conduct an internal assessment of any allegations brought forth, and based on the specific documentation and information provided, will determine whether the facts are sufficient to proceed any further.

In addition, the Municipal Relief Act also enacts legislation for the State Auditor to conduct reviews of municipal finances. Prior to the passage of this provision, OSA was forced to turn down such requests because it could not conduct audits of entities under the audit authority of the Department of Revenue's Bureau of Accounts. Municipalities that wanted audit work done, in addition to their required annual audit, could petition the Bureau of Accounts "to cause an audit to be made." Unfortunately, the Bureau of Accounts was unable to respond to these requests because of very limited resources devoted to audits.

This new provision gives OSA the flexibility to respond positively to such requests. Under this provision, the mayor and council in a city, or the board of selectmen and town meeting in a town, can vote to petition OSA to conduct any such audit. The city or town must also appropriate sufficient funds to pay for the audit services. The State Auditor retains discretion relative to accepting any request and has the final say on the nature and extent of the audit.

I anticipate that these provisions in the Municipal Relief Act will provide municipalities with valuable assistance in identifying areas where internal controls, financial operations, program results, and efficiency can be improved. I have always said that the Office of the State Auditor should be more than just a critic; that it can be an advocate and catalyst for improved management and delivery of government services. To the extent possible and working together with municipal officials, I am confident that this new law will provide the basis for a new partnership that will lead to stronger accountability. ■

Budget Outlook

continued from page one

turn to spending reductions as the primary tool to achieve budgetary balance. While the Governor will continue to push for many of the reforms and reorganizations that he proposed in 2004 — including improved court management and the lifting of the Pacheco law's restrictions on the competitive delivery of services — the reality remains that initiatives such as these can close only a tiny portion of the 2005 gap.

On the plus side, the state is likely to begin fiscal 2005 with significant reserves, including almost \$500 million of prior tobacco settlement payments set aside for future health care needs and more than \$600 million of stabilization reserves, as well as the \$400 million in federal funds. Limited use of these reserves — in combination with the expected modest increases in tax revenues — could soften the impact of the structural deficit. Against this background, further cuts in local aid remain likely, although there is at least some possibility of level funding if the revenue outlook continues to improve. ■

1. Although these forecasts may differ from those used by the Governor, they are comparable.

Editor's note: This article represents the opinions and conclusions of the author and not those of the Department of Revenue.

Faculty Housing

continued from page two

Campus, the South Campus was not an isolated parcel like the BU President's house. In considering the 12-acre parcel's constant use for athletic activities, the Appeals Court held that the South Campus was integral to the Main Campus, and both parcels constituted the principal location of the college.

Accordingly, the Appeals Court held that the residence of the athletic director was part of the principal location of the school and therefore entitled to a charitable exemption. ■

Property Tax Exemptions

the municipalities reported FY2003 PILOTS. Two of these, Boston and Cambridge, each received payments of more than \$2 million. The average payment for all others was about \$29,900. Many more communities, 66, received PILOTS for other exempt charitable properties. Of these, Boston and Bedford reported receiving more than \$1 million each, while the average payment for all others was approximately \$44,100.

For 12 municipalities, the PILOT's were especially significant, the equivalent of more than 1 percent of their tax levy. Most of these are small communities, such as Gill, Deerfield, Lenox and Williamstown, but this group also includes those with the largest payments, Boston, Cambridge and Bedford.

Projected Tax Payments

The Legislature requested that this report estimate the property taxes that would be owed to the city or town if the tax exempt status of the charitable organizations were terminated. These calculations were complex, having to take into consideration FY03 municipal tax rates, tax levies and levy limits, classification options chosen, and potential allowable new growth. What resulted is a projected FY03 payment based on the application of a projected commercial tax rate. For the 308 communities reporting class 904 and/or 905 properties, the total projected tax payment for the newly taxed properties would be \$505.8 million. This would represent about 5.8 percent of the projected levy for these communities. The range of the projected payments would be from \$40 for Hampden to Boston's \$159.7 million (13.5 percent of its new tax levy). Of those currently receiving PILOT's, most would experience drastic increases in revenues. There are, however, four that would receive lower payments, Lexing-

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ton, Canton, Ipswich and Westminster. This reflects the fact that PILOT's can be negotiated on a basis other than *ad valorem*, including actual or projected revenues, cost of necessary special services, cost of expansion plans, etc. Ipswich indicated that its primary PILOT is based on seasonal income derived from the tax exempt property, which fluctuates from year to year. Canton and Lexington reported that the assessed value of their principal 905 properties reflects an early construction condition, while the payments are based on completed, operational conditions.

Conclusions

For this report, the Bureau of Local Assessment gathered data on the FY2003 tax exempt property held by private educational and charitable organizations across the Commonwealth. This information was supplied by municipal assessors. It is unaudited and reflects mass appraisal valuation that may not capture the unique characteristics of such properties.

The Commonwealth generously grants property tax exempt status to many educational and charitable organizations. This, however, decreases local property tax revenues. Three hundred eight communities reported the FY2003 value of such properties to be more than \$22 billion. If taxed, they would have generated an estimated \$505.8 million in revenue. These organizations add greatly to the quality of life in Massachusetts, but they also require costly municipal services. Monetary payments in lieu of taxes were reported as totaling almost \$18 million, dramatically less than the projected taxes. Some organizations make "in-kind" payments to cities and towns, but these donations are not quantifiable, and may not be predictable or representative of the cost of services. ■

DLS Profile: BLA Deputy Chief

The Bureau of Local Assessment (BLA), under the direction of Marilyn H. Browne, is responsible for supervising local property valuation and assessment practices. **Brenda Cameron** is the Deputy Chief of the BLA and has held this position for four years. She has an extensive background in the field of assessment, both on the state and local levels.

Brenda began her career in assessment in 1985 when she began working in the Bureau as a field appraiser. She later became the Assessor in the Town of Walpole and subsequently worked in Stoughton as the Director of Assessing. In 2000, she joined the Division of Local Services once again as deputy bureau chief.



Brenda Cameron

In her capacity as Deputy Chief, Brenda oversees 10 field staff members and five office staff members in Boston as well as in the Division's regional offices. She also reviews certification reports from field staff for communities' preliminary certification and works on new growth approvals.

Since she began her career, Brenda said she has observed "many changes in the assessment field that have resulted in more professional and efficient practices." She also noted that BLA "has strived to develop innovative and cost saving procedures for facilitating many of the bureau's functions. The communities have been very receptive to these changes and have worked with us to ensure the success of these programs."

Brenda has a bachelor's degree from Providence College in Political Science and a juris doctorate from the New England School of Law. She also holds the designations of Massachusetts Accredited Assessor and Residential Massachusetts Assessor from the Massachusetts Association of Assessing Officers. ■

New PTB Phone Number

The Property Tax Bureau (PTB) recently changed its telephone number to **(617) 626-2400**. This new number was implemented to make certain that important and relevant inquiries from local officials are identified promptly and responded to effectively. Moving forward, the PTB also intends to expand its electronic information base to make property tax and finance information more readily available to all. The bureau hopes that this effort will also help curtail repetitive or misdirected calls and allow it to focus time and efforts more efficiently on communities' important issues. For the same purpose, the PTB is asking that problems or issues that need to be addressed locally, and that it cannot by law resolve, not be unnecessarily referred to the bureau. By your good judgment and cooperation in this regard, the PTB will be able to more effectively provide critical and valuable local services. ■

City & Town

City & Town is published by the Massachusetts Department of Revenue's Division of Local Services (DLS) and is designed to address matters of interest to local officials.

Joan E. Gourke, *Editor*

To obtain information or publications, contact the Division of Local Services via:

- website: www.mass.gov/dls
- telephone: (617) 626-2300
- mail: PO Box 9569, Boston, MA 02114-9569

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